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Agenda for Co-operation

**A Discussion Paper
on Decontrol and Post-Control Issues**



**Government
of Canada**

**Gouvernement
du Canada**

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Preface

This Discussion Paper is addressed to the vital questions about decontrol and the kinds of actions that will promote a healthier and less inflationary economy.

The day is approaching when wage and price controls must be ended.

Most Canadians realize that these measures must be temporary, and that when they have served their purpose, they should be removed.

Given that objective, this paper examines our economic problems and the roles of various groups in economic decisions. It charts a number of directions we might take to resolve our difficulties.

Most important, the paper earnestly invites the participation of Canadians in framing the economic decisions which will guide our progress in future years.

1 Our Economic Goals

Canada is a country of great natural resources with a skilled and practical people. Its industries are based on a high degree of technology. Few countries enjoy so strong a basis for the achievement of essential economic goals - a high level and stable growth in the amount of the goods and services we produce and the incomes we earn; the ability to compete effectively and pay our way in the world; the provision of jobs for our work force; the fair sharing of income; the means to protect those citizens hurt by sudden and unpredictable economic shocks.

In recent years, the pursuit of these goals has been hampered by severe rates of inflation in Canada. This damaging and divisive force has frustrated our efforts to accomplish the objectives we have sought.

We have, within Canada, the ability and the opportunity to achieve economic progress with less inflation. What is required is not only good policy from governments, but an effective sense of shared responsibility on the part of all Canadians.

In Canada, we have chosen to combine our human and material resources in a mixed economic system. At the core of economic activity are private markets and private decisions. Governments support both the efficiency and equity of this system in a number of ways. They act through broad monetary and fiscal policies to influence overall production, income, employment, inflation, and trade and other exchanges with the world. They set a legal, regulatory and incentive framework for private sector activity, and they finance and provide directly a number of services commonly accepted as a public responsibility. They play a major role in income support, social security, income redistribution and regional economic development.

It is the wish of most Canadians to maintain and strengthen this mixed economy, with the great preponderance of economic decisions taking place in the private sector. The controls on prices and incomes introduced in 1975 must be regarded as a necessary, but only temporary, intervention in decision-making processes. The challenges of operating a healthy and

stable economy without mandatory controls on individual income and price decisions must be met. Legislation requires controls to be ended by December 31, 1978 at the latest, and there are compelling reasons why controls should not be a continuing feature of our economic system.

Most obviously, controls involve rules that are bound to be somewhat arbitrary and substitute the judgments of relatively few for the judgment of many. Controls cannot adjust quickly or adequately to changes as they occur and to new opportunities that develop. Distortions of many kinds can appear. In attempting to cope with quickly changing circumstances, controls inevitably become more detailed and bureaucratic. Inequities increase and as time goes on individuals and groups are less and less prepared to sacrifice their freedom of action; either more compulsion is necessary, or evasion of the program becomes widespread.

To meet the challenges of operating a healthy and stable economy without mandatory controls, a number of things must be done. The gains made against inflation and inflationary expectations need to be secured. The momentum established toward restoring our competitive position abroad must be reinforced. Fiscal and monetary policy must continue to be directed toward realistic goals of growth and reduced inflation. The timing and manner of decontrol should contribute to these advances. A new spirit of communication, realism and shared responsibility among governments, business and labour should be nurtured and harnessed. Consultation and monitoring institutions which can usefully supplement our mixed system of economic and social management should be developed.

If we are to rely mainly on markets to allocate capital, labour and other resources in the most efficient manner and to determine incomes and prices, it is essential that markets work well. Improvements in information and incentives are important elements in assuring that they do. So are reductions in the detail and complexity of regulation and direction affecting markets. Competition policy, industrial policy, manpower policy and labour-management relations must all be improved.

The opportunity is open to us to move out of controls smoothly and co-operatively, into a period where individual choices are based on a better understanding of - and concern for - their broader consequences.

In October, 1976, the government issued a Working Paper entitled The Way Ahead. That paper examined the complex origins of Canada's inflationary difficulties and sought to look beyond the controls program to the major principles and policy strategies which should shape the government's role in the post-control period. It invited and initiated a formal process of discussion, dialogue and consultation with all elements of Canadian society.

With this Discussion Paper, the government seeks further and more specific consultations with the Canadian community. This paper discusses the economic realities of Canada's position in the world and reviews briefly a number of specific policy areas. It examines some limits on government action in solving economic and social problems, and the implications that follow for groups in the private sector. It addresses some steps that might be taken, upon the withdrawal of formal restraints, to foster continuing consultation on economic problems and to establish a continuing mechanism to monitor price and income increases.

Alternative methods of removing controls are examined, and two important areas of public concern - labour-management relations, and public sector compensation - are discussed in detail.

2 Problems and Prospects

As we prepare to move away from controls and toward the 1980s, it is critical that we size up the dimensions of our current economic situation and future prospects.

In recent years Canada has shared the problems of inflation, slow growth and unemployment which have affected all industrial countries. It is worth recalling, however, that Canadians have experienced a remarkable increase in real incomes per capita, in some years as much as 5 per cent. These increases were higher than in any other major western industrialized country and they were over twice the average annual increase in Canadian productivity per employed person. This period was marked by a number of factors unusually favourable to Canada. First, while external forces made our inflation problems severe, Canadians benefitted from a large improvement in external terms of trade, as the average world prices of things we sell increased by more than those of things we buy. Second, for the period as a whole Canada was a large net exporter of energy, in the latter part of the period on rather favourable terms. Third, reflecting the much faster growth of employment than of population during the period, and thus the tremendous increase in the proportion of Canadian families with two, three or even more pay cheques, the per capita level of real incomes grew strongly. Canada has created jobs for most of a rapidly growing labour force, which in turn reflected both a very rapid growth in the population and in those who sought to enter the labour force.

These favourable conditions cannot be expected to persist. There is a limit to our borrowing from the rest of the world to support our current consumption standards. As international trading patterns shift and as developing countries continue to press for a more equitable distribution of the world's wealth, we may find it difficult to maintain our favourable terms of trade. We are now a net importer of oil and may find ourselves in a net import position for total energy in the not too distant future.

The rate of increase of the Canadian labour force will slow down, reflecting both lower rates of population growth and the changing age structure of the population. This in turn will reduce our potential rates of real economic growth and

result in future increases of real income per capita that are more in line with average increases in productivity. Both the external economic environment and our demographic prospects suggest that the relatively rapid increase in average real incomes we have experienced in recent years is not likely to be sustained in the future.

The Continuing Problem of Inflation

Our economic structure will have to adjust so that our potential can be realized. Equally, expectations about what our economy can deliver will have to be realistic. In achieving our collective and individual goals, inflation stands as a central and continuing problem.

The events of the early 1970s led to problems of inflation, unemployment and serious payments deficits throughout the industrialized world. Canada did not escape these problems and the rate of inflation reached double-digit levels. During the worldwide recession of 1974 and 1975, the growth of output and employment was better maintained in Canada than in other industrial countries and, partly as a result, the inflationary momentum decreased little and late. Canada's competitive position in relation to the United States started to erode significantly and persistently. In October, 1975 the government introduced its anti-inflation program, including controls, with a first-year target of holding inflation to or below 8 per cent and a second year target of 6 per cent. Real income increases per worker of about 2 per cent were planned for in the first year of the program.

With all the facts now in, it is clear that most Canadian workers fared well during the first year of this program. Although the increases in new wage settlements were greatly reduced, average wage rates paid went up by more than 10 per cent. At the same time the consumer price index increased by less than 6½ per cent. Unusually cheap food, the price-restraining effects of a high value of the Canadian dollar through most of 1976, and unusually low profit margins reflecting the widespread slack here and around the world, combined to permit increases in real household incomes and real wages in the 3½-4½ per cent range. These increases were well above the approximate 2 per cent gain in real annual productivity per worker.

This year, increases in food prices have resumed. Energy prices are continuing to rise. The depreciation of the Canadian dollar is putting more upward pressure on domestic prices. As we have to use more of the goods and services we produce to buy the same amount of goods and services from abroad, our real incomes will have to grow more slowly. Indeed, the increase in real income per capita may have to be less than the growth in average productivity. This will show up for the average household in the form of a somewhat higher increase in consumer prices than last year and a somewhat smaller increase in wages and salaries.

A concerted attempt to escape this reality by trying to push up wages and salaries still further would clearly frustrate progress against inflation. It would jeopardize the recovery of Canada's competitive position, and endanger the creation of new jobs.

Through the recession and early stages of the recovery between 1974 and 1976, the Canadian economy was sustained at levels of output, employment and capacity utilization that were better than other industrialized countries. Nevertheless, considerable slack remains in the economy. Clearly we need more rapid growth of output and employment if the potential of our economy is to be realized. Higher real investment, reduced balance of payments deficits and some gains in consumption can be attained. But, as the March 31 budget argued, the pace and manner of pursuing these goals is constrained. A resurgence of the inflationary spiral would turn short-term gains in employment into severe subsequent losses. Massive increases in government expenditures to stimulate employment could produce some short-term employment gains, but at the expense of sustained efficient growth of output, employment and income. The credibility of government undertakings to restrain the growth of government expenditure and in due course to reduce government deficits, would be undermined. We would run the great risk of rekindling inflationary expectations.

A continuing reduction in inflation is a necessary condition of better prospects for economic performance. It is essential to business confidence, essential if producers are to exploit expanding markets, and essential to investment decisions and a sustained reduction of unemployment.

The Climate for Progress

The government's first responsibility is to ensure a climate within which the private sector will expand with confidence and create jobs that are both lasting and personally satisfying. Current policies are aimed at creating such a climate. The government also recognizes, however, that the levels of unemployment in some regions and among some groups require specific initiatives. It has therefore reordered its spending priorities within the general fiscal restraint guidelines, to provide increased support for direct employment programs.

The government's economic policies continue on the lines set out when the anti-inflation program was launched. Restraint over the growth of government expenditure must be continued. Measures to improve the structure and functioning of the Canadian economy merit high priority.

The Governor of the Bank of Canada in his recent annual report confirmed the Bank's strategy of progressively moderating the rate of monetary expansion. While fiscal policies have not been formulated in terms of numerical guidelines, the advantages of avoiding wide swings have been recognized in fiscal policy as well as monetary policy. The November, 1974, budget provided substantial stimulus for 1975-76 to help maintain the growth of demand and to limit the severity of the recession in Canada. With the recovery since early 1975, the fiscal stance, and the deficit which it entailed, were basically maintained in 1976-1977.

A series of moderate expansionary fiscal steps took place prior to the March 31 budget, mainly through the reduction of personal income tax as a result of indexation, the reduction of unemployment insurance premiums and the initiation of new programs to promote direct job creation. The recent budget provided some further stimulus. But its extent and nature had to be conditioned by the commitment to expenditure restraint, the already high level of borrowing requirements and the priority attached to maintaining new private investment. All this was seen as necessary for sustained expansion of output, income and employment.

Ending Controls

Current economic conditions and prospects for Canada provide some signs favourable to successful decontrol during the next year or so. First, in view of the present unused capacity and high unemployment in Canada, and among the industrialized countries generally, it seems unlikely that excess demand will lead to a renewed acceleration of inflation when controls are removed. Second, while sudden restrictions on supply can always develop - due to factors such as widespread crop failures, oil embargoes or major disruptions in trade of a number of key commodities - the general supply situation in food, industrial materials and energy does not suggest widespread shortages during the next two years. It is likely that world prices of food, industrial materials and energy will increase at least moderately. But a recurrence, in the next two years, of past inflationary explosions from food, industrial materials and energy seems unlikely. Third, no widespread distortions in Canadian labour or product markets or in wage and price structures, appear to have been introduced by the controls program. This is fortunate since any major distortions and suppressed adjustments would probably lead to substantial, corrective wage or price increases on exit from controls. Fourth, leaders of labour and management believe that the situation has been stabilized to the extent that the people of Canada need not fear a recurrence of the kinds of pressures that prompted and required the government to institute the controls program.

Most important, inflationary expectations have changed significantly since October 1975. The average Canadian no longer expects wages and prices to rise at double-digit rates. Newspapers are no longer filled with stories of stratospheric wage increases inviting emulation. Surveys of business and consumer expectations do not point toward expectation of substantial price increases. The decline in inflationary expectations stems from the better price performance recently experienced and from the commitment of the government, expressed through the anti-inflation program, to control inflation.

Certain less favourable circumstances are also present. First, as already noted, it is clear that some further upward impact on price levels in Canada will arise from

higher energy and food prices. Second, whereas the Canadian dollar appreciated on average between 1975 and 1976, it has more recently depreciated substantially. The appreciation deterred or limited increases in prices in Canada in 1976, and the depreciation will work in the opposite direction in 1977. Third, a number of wage contracts call for recovery of increases previously rolled back by the Anti-Inflation Board or contain other triggering arrangements that may result in inflationary wage increases once the controls program is terminated. Fourth, a number of excessive demands for compensation increases are still coming forward, even in the second year of the controls program. A large proportion of pay plans have to be renegotiated or redetermined in the year ahead.

If these factors lead to a renewed upward spiral of prices and costs when controls are removed, the hard-won gains of the past year and a half would be threatened. Claims for larger increases in money incomes would not lead to larger increases in real incomes. They would intensify inflationary pressures and lead to heightened social tensions and fewer jobs. The effort to restore our international competitive position would be undermined, with adverse consequences on our balance of trade. The recovery of investment would be impaired. Any attempt to accommodate more rapid inflation by more expansionary fiscal and monetary policies would be self-defeating.

Thus, we need a process of decontrol which keeps us moving toward lower rates of inflation and helps restore confidence in the future of our economy. This in turn requires a realistic appreciation of our economic prospects and the will to accept a share of the responsibility for good economic performance.

3 Government and the Economy

The Canadian economy has always been a mixed economy. We have depended on private individuals to mobilize and manage capital for the development of our resources, agricultural lands and industrial base. At the same time the state has played a significant role in supporting and influencing the process of economic development. The nature of Canada as a nation, the enormous difficulties involved in developing such a large land mass, and the necessity to invest large sums in order to develop our resource base, have required action by governments at both the provincial and federal level. The state has also participated directly to an increasing extent in the provision of social services, a development that paralleled trends and responded to pressures common throughout the Western world.

While governments have been important participants in the economy, Canadians have rejected a system in which all or most decisions would be made by public authorities. Both for reasons of efficiency, and because of the strong belief that individual freedom can best be preserved by avoiding excessive concentrations of power, Canadians have opted for a system centred on the decisions of individuals and private organizations. The role of government in the economy has generally been confined to influencing the framework in which these decisions are made, or participating only when these decisions concern large issues of resource allocation or social impact.

The Way Ahead addressed the role that government might play in the post-control period, and set out a number of basic principles to guide the further development of federal government policies. These principles are:

- a belief that the potential of Canada can best be realized and our goals most fully achieved through increased reliance on an efficient market system;
- a reaffirmation of the government's deep commitment, reflecting society's will, to individual freedom, equality of opportunity and social justice;

- a recognition of the need to manage social policies in a way which both preserves and improves upon the socially progressive society which Canadians have built, but which does not lead to continuous growth in government and a steady erosion of personal freedom.

Sharing Responsibility

One of the lessons we can draw from the experience of the last decade or so is the very real limitation on the capacity of governments alone to solve economic and social problems. Yet we can expect that governments will be under even more pressure to intervene in order to meet the challenges facing the economy and ensure that the costs of economic change do not fall on those least able to bear them. The government cannot reject its obligation to play a significant part in managing the economy or building a more humane society. We recognize, however, the limitations governments face, and believe that the achievement of our goals as a society will be fostered by recognition that responsibility is shared, not only among governments but between the private sector and governments. Governments must be concerned about the impact of laws, regulations and policies on the functioning of markets and on the incentives they offer to individuals and firms. Those in the private sector must, on their part, be concerned about the wider consequences of their individual actions.

Governments can encourage an open discussion of the real dimensions of our economic situation and help to provide the information needed by the participants in the economy if they are to understand the impact of their actions. Governments must also be prepared to address specific situations where it is clear that in making price and income decisions, some of the wider social and economic implications are being ignored. But if we are to avoid much more direct government intervention on a regular basis in all spheres of economic activity, individuals and groups must share the wider responsibility for their actions. The government, in proposing the consultation process outlined later, is endeavouring to assist the development of this sharing of responsibility.

Managing the Economy

Governments can and should influence the general framework in which economic decisions are made. In the broadest sense, they can influence total demand within which markets operate through their spending and taxing powers, and through regulation of the growth of the money supply. In setting their economic policies, governments must ensure that they do not try to demand too much from the system, or set their policies in an attempt to solve today's problems while storing up trouble for the future. There are dangers inherent in attempting to "fine tune" the economy. But there remains an important role for governments, at both the federal and provincial level, to offset cyclical fluctuations of the economic system, and to encourage steady and non-inflationary growth.

However, government alone cannot ensure that its policies will bring about the desired result. It is also necessary that people throughout the community act in a manner consistent with that outcome. For instance, while the federal government together with the Bank of Canada can exert an expansionary influence on the growth of total spending and incomes, they cannot determine the extent to which this will lead to an increase in output and jobs, rather than increases of costs and prices. The result will be some mix of the two and a myriad of decisions throughout the economy will determine the outcome. Thus while the government is responsible for the broad setting of economic policy, others share in the responsibility for good economic performance.

While it is not easy for individuals to perceive the impact of their actions on the course of the economy, collectively they determine economic development. If all workers are granted excessive wage increases, the government is faced with a choice in the short run of either accommodating such demands and allowing higher inflation, or attempting to control inflation but allowing higher unemployment. In the somewhat longer run, however, the failure to deal with inflation is bound to make the problem of unemployment worse.

It is unrealistic to expect government to keep private industry internationally competitive if costs of production rise faster in Canada than in other countries. The private sector has the main responsibility to remedy some of the problems that contribute to this - poor management, lack of investment, slow growth of productivity, and rapidly rising wages. We have seen too many cases of countries which thought a broad policy tool, such as an exchange rate adjustment, was a panacea for these particular problems.

The problems associated with the erosion of our position in world markets provide good illustrations of these interactions. The recent depreciation of the Canadian dollar has served to offset a part of our competitive disadvantage by directly reducing the price of our exports abroad. At the same time it has raised the domestic prices of the goods and services we import from others. Attempts by Canadians to offset these higher import prices through increased wages and prices will lead to higher production costs. Potential export opportunities will not be realized and we will find ourselves on a treadmill of successive depreciations that have little corrective effect on our balance of payments while seriously exacerbating inflation.

The Framework for the Market System

The market system is an efficient mechanism for allocating resources. Moreover it has great advantages in terms of the freedom of choice and the scope for initiative that it offers. For these reasons it makes sense to rely as fully as we can on markets as a core of our economic structure.

However, the market system as we know it is not some simple textbook abstraction. It embraces the whole set of arrangements and circumstances within which buyers and sellers meet. It includes the legal framework, the institutional practices, the incentives offered by taxes and subsidies, the degrees of economic power exercised by various participants and the information available to them as they make their decisions. Governments have a responsibility to see that the framework within which markets work supports their efficiency and

flexibility rather than inhibiting them. They have a responsibility to see that the incentives offered in the marketplace will lead to individual decisions that are consistent with the common good.

Governments set the framework of laws and regulations within which markets operate. In a narrow sense the laws may simply protect the integrity of the marketplace, for example through fair advertising and fraudulency regulations. More generally the legal framework can influence the economic power of people on the two sides of a market. Governments must be concerned to see that the laws and their application do not lead to unbalanced markets that tend to favour one side or the other. This is relevant in the labour market as well as in the markets for goods and services.

Governments can influence the choices that people make by regulations that limit or prohibit market freedom, for example through regulations to control pollution, through safety rules or through prohibition of unsafe products. Indeed this is often the best way for governments to fulfil their responsibilities in these areas. However there is a risk that the number of regulations and regulatory bodies may proliferate needlessly, adding to costs and creating rigidities that impair innovation. This area is being reviewed by the government to see whether the objectives of regulation can be achieved in less costly ways.

An alternative to regulation is to alter, through taxes and subsidies, the incentives facing people in markets. Markets work with great efficiency in response to the incentives offered and it is therefore important that the incentives encourage the desired result. For instance rather than, or in addition to, combatting pollution by regulation, we should ensure that the costs of industrial pollution are borne by producers and consumers of the offending products.

The functioning of the marketplace can be improved by increasing the information available to participants. We have made some progress in recent years in opening up information flows, but we have a long way to go. The government is prepared to open itself more fully to public

discussion of its policies. In this paper some concrete suggestions are made with respect to the management of the economy. If we expect individuals to accept responsibility for their actions, we will need to develop a more open private sector as well. Openness dispels misconceptions and mistrust. In the labour market, for example, a freer flow of information at the bargaining table would often assist the parties in coming to mutually acceptable settlements.

Markets that work well, within an appropriate balance of incentives, will be able to respond to the changing opportunities and challenges that will arise in a dynamic society. Some people may gain and some may lose as the economy goes through these adjustments and governments have a responsibility to see that the costs of change do not fall too heavily on a particular group. This is an important responsibility, but it must be recognized that an effort to "cushion" everyone against every adjustment would prevent necessary and desirable changes. Moreover the measures that governments might adopt to protect people are themselves costly and can contribute to the problem of inflation.

The following sections comment on some particular areas of concern and report on some steps that the federal government has taken.

Competition Policy

Competition policy is a good example of the role the government can play in enhancing the efficiency of the market system and in encouraging economic growth. The government's aim is to carefully examine activities which artificially restrict competition and to oppose them unless there are compensating benefits to the Canadian public. It recognizes that there will be circumstances where mergers enhance the economic efficiency and competitive strength of certain industries on international markets. These may be justified provided the consumer is protected from subsequent abuse of market power.

In 1975 the government extended competition legislation to cover the service sector, to make illegal a number of deceptive advertising and marketing practices and to provide for civil review of a number of business practices that could seriously lessen competition. The second stage of competition policy, introduced in March, represents a major shift in policy concerning industrial structure and market power. It is proposed that the abuse of market power no longer be regarded exclusively as a criminal offence, with the necessary rigidities and restrictions that such a review implies. Review and remedial action undertaken by a civil board of knowledgeable persons, will allow a more flexible approach to the problems created by market power.

The government has also introduced the Borrowers and Depositors Protection Act. This bill is designed to ensure that Canadians engaging in financial transactions are aware of the true financial costs of such transactions and that the interest rates they are charged for loans are just and reasonable, yet sufficiently flexible to allow market forces to operate. Competition in financial markets, to assure a more efficient allocation of funds, will be further enhanced by the revisions of the Bank Act which the government will introduce in the next session of Parliament.

Industrial Policies

Canada's industrial structure, while strong in many respects, has significant problems which are likely to become more severe in the future. The multilateral trade negotiations now taking place will likely result in an important opening up of the world market. This will provide Canada with new opportunities, but also new challenges as our industry faces stiffer world competition. The shift of industries to Third World countries, and development of new technologies requiring large capital investments, are two trends in economic growth which will strain the Canadian economy. We have too many low-productivity, low-wage industries dependent on high tariffs. We have too few firms, especially Canadian-owned, with the ability to develop the large-scale plants now required in many sectors. As a nation we appear to invest

too little in industrial research and development and thus must import too much of our technology. We have too few entrepreneurs, and too few firms willing to compete in world markets selling goods other than unprocessed natural resources.

Governments can help to promote a better industrial structure by identifying sectors where adjustments seem desirable, by providing the incentives for change and, where necessary, by easing the burdens of adjustment. In doing so, governments must co-ordinate their efforts. If all regions compete for all industries, and attempt to protect all existing firms, the industrial structure will not be strengthened.

In order to promote productivity and foster innovation, the federal government has amalgamated eight different programs into a single Enterprise Development Program. This program will enable primarily small and medium businesses to obtain the financial resources necessary to generate innovation and growth. Its administration through provincial boards - with private and public representation - will make it equally accessible to all parts of the country and assure an appropriate sensitivity to regional conditions. The government has also introduced a number of other measures to aid small businesses, including easing statistical reporting requirements and extending certain tax measures.

Finally, through Enterprise Canada '77 the Government is engaged in a coast to coast survey of 5,000 to 6,000 businessmen to determine the value of present government programs for business. It is committed to change, adjust or eliminate programs depending on the results of this survey.

A healthy interaction between governments and the private sector is of paramount importance in connection with sound industrial policy. Governments have perhaps been too reluctant to recognize that entrepreneurship requires an adequate return on risk, and too ready to alter the ground rules with inadequate concern for the effect of these changes on the business environment. On the other hand, governments have too often been pressed to provide special assistance to business in ways which inhibit the flexible

adaptation of the economic structure to new opportunities. Individual business leaders who want less government interference, who argue for a more dynamic and competitive structure, will be aware of the responsibility not to undermine these goals.

Regional Policies

Dynamic and healthy regions are a necessary condition for a full realization of our potential as a nation. The Canadian Confederation has worked to the benefit of all Canadians: the advantages of a larger state have contributed to the growth of each of Canada's regions. But regional disparities continue to exist, and present an important challenge to our political structure. Canadians cannot be complacent about such disparities.

The federal and provincial governments have undertaken a number of major initiatives.

The Department of Regional Economic Expansion has supported provinces' long-term development efforts. Other programs such as unemployment insurance have had a significant regional dimension. Revenue equalization programs provide the capacity for a basic level of all public services in every province, thereby assuring all Canadians equality of access to such services. In the last budget, increased incentives were provided to investment in the slower growth regions. These are all important measures, and reflect the broad commitment of Canadians to building a strong and united country.

The Federal-Provincial Fiscal Arrangements Act, recently passed by Parliament, introduced an important new approach to the management and funding of a number of shared-cost programs. Responsibility for the management and further evolution of shared-cost programs has been given to the governments of the provinces, together with a transfer of personal and corporate income tax room that will provide the additional financial resources necessary to exercise this responsibility. This will allow these programs to be

developed in a more cost-effective manner and in directions more in keeping with local circumstances and provincial priorities. The federal government will continue to make contributions to the financing of these programs. The magnitude of these contributions will grow as the economy grows and their distribution among provinces will entail an element of equalization to assure a minimum level of service across the country.

It must be recognized, however, that the origin of regional disparities lies deeply embedded in both the structure of the economy and underlying economic forces. It is unrealistic to expect government programs to solve all the problems. In fact, it is unrealistic to assume that the economy can be so structured as to eliminate all disparities. However we will have to work harder than we have in the past, as governments, as participants in the private economy and as individual Canadians.

Employment and Manpower Policies

To achieve rapid growth and full employment, Canada's labour markets must also work efficiently. This is facilitated by a national network of Canada Manpower Centers which provide an extensive range of manpower services to both employers and employees. Because some industries are growing and others declining, new productive employment opportunities do not always open up in the same industry or same town in which low productivity jobs have disappeared. In order to facilitate the transition of workers from low to high productivity jobs, the government is complementing the efforts of private employers and provincial governments through the Canada Manpower Training Program. Participants can gain work skills on the job through the industrial training component or in classroom instruction through the institutional training component. In 1977-78 approximately \$580 million will be allocated to this program. Mobility grants amounting to approximately \$14 million will be made available in the current fiscal year to enable unemployed and under employed Canadians to move to where their skills are in demand.

But education, retraining and mobility grants will not do the job alone. The incentive must be there to make it worthwhile for Canadians to seek productive employment. The government has introduced amendments to the Unemployment Insurance Act that will increase the incentives to seek productive employment while extending benefit periods and protection for unemployed Canadians in those regions of the country where employment opportunities are not readily available.

In spite of these efforts, groups of workers and areas of the country continue to suffer prolonged and high levels of unemployment. Selective policies of direct job creation are required to deal directly with particular regional and demographic aspects of unemployment. In 1977-78, about \$420 million will be allocated to job creation including Canada Works and Young Canada Works, creating directly the equivalent of more than 50,000 year-round new jobs. Canada Works projects are proposed and managed by local groups and the funds are targetted to regions of highest unemployment. In order to provide more lead time for the planning and consideration of projects, Canada Works will continue on a year-round basis.

Social Security

Much of the discussion in this chapter has been about the process of structural change that must occur in a dynamic economy. In that context, a major objective of the social security system is to provide temporary support to those adversely affected by developments in the economy. While there has been some criticism of programs such as unemployment insurance, critics often exaggerate the problems, and ignore the positive economic and social value of these measures.

Over the next decade Canada will face enormous economic challenges. We have too many industries in which we are not competitive, too few firms which meet world standards of productivity. If we are to continue to grow at rates all consider desirable, we will have to shift resources from some existing industries to other industries, and from some

firms to other firms. If the burden of those adjustments falls exclusively on the population directly involved, the result will be not only an inequitable distribution of the cost of growth, but greater resistance to growth itself. Pressure to put off structural changes is very great and often successful. The more adequately the social security system can handle problems of adjustment, the more easily governments will be able to resist this pressure. The government therefore sees an adequate and efficient social security system as an aid to economic growth. The better the social security system, the more reliance we can place upon the market system. The two, rather than working against each other, are mutually supportive.

At the same time the government fully accepts its responsibility to provide a minimum standard of living for those who are unable to meet their basic needs.

A further objective of a social security system is to alter the income distribution which results from the working of the market mechanism. The government remains committed to narrowing extremes of income distribution. However, it is important to do so in a way which maintains incentives for individual initiative and which reflects a general consensus on the part of the population. No purpose is served by trying to legislate a narrower income distribution if such a consensus does not exist. The result is increased inflationary pressure as those adversely affected attempt to restore their position by increasing their wages and prices rapidly. The question of income distribution is a good example of the need for shared responsibility and a more open dialogue on the options available. If a broad consensus exists, it is possible either through taxes and transfers, or through private and public sector wage policy, to achieve a narrowing of income differentials. If such a consensus does not exist, attempts to legislate such a narrowing are likely to do more harm than good.

The government is continuing to review its programs to improve the system's ability to accomplish the desired objectives with both maximum efficiency and minimum interference with individual liberty. In this regard the

government has undertaken two major studies. One is examining the possibility of rationalizing a number of social programs and making them more efficient by integrating them directly into the tax structure. The second concerns retirement income provided publicly through old age security and the Canada Pension Plan and privately through employer-employee pensions. Important questions about the sharing of responsibility between the private and public sector arise in this connection.

Housing

Over recent years, two sets of forces have acted to concentrate pressures on the housing market. The first is broadly demographic in character. Growth in the absolute numbers of families and other types of households and changes in their characteristics have created severe strains on the country's capacity to provide appropriate housing.

To these strains, which were leading to higher costs of land assembly and servicing, were added the pressures of general inflation. The existing housing stock has been one of the most rapidly appreciating assets held by individual Canadians who have sought protection in home or condominium ownership. Home ownership has been a good investment, highly leveraged in most cases, and virtually alone in its exemption from capital gains taxation.

The combined effect of these forces has been to raise dramatically the price of existing and new housing in Canada and to move it beyond the reach of many Canadians.

The federal government has responded by developing programs designed to meet three objectives: first, to bring modest-cost new housing within the reach of more Canadians through the Assisted Home Ownership Program; second, through the Assisted Rental Program, to restore and support the production of rental housing, which had fallen off abruptly because of rising costs of production and higher interest rates; and third, through municipal incentive grants, to reduce local government resistance to the provision of

serviced land for modest cost housing at medium density. The home ownership and rental programs were expressly designed to rely on the private mortgage market and to reduce government involvement.

The government cannot relax in its efforts to ensure continued and rapid progress towards the goal of adequate shelter within the reach of all Canadians. But the scale and growth of public expenditures on housing puts heavy pressure on public funds. The government is reassessing the structure of housing policies in order to achieve the same objectives at less cost and with greater reliance on the market.

Energy

One of the most pressing areas where our social and economic system will have to make difficult adjustments over the next decade is in energy. An Energy Strategy for Canada, released by the government in April 1976, set out clearly the dimensions of our current energy problems: in a world where the total demand for oil may exceed the supplies that major producers will be willing to provide through the 1980s, Canada's net dependence on the rest of the world is expected to increase.

The government has acted to cushion Canadian consumers and Canadian industries against higher energy prices by regulating the pace at which domestic oil prices move towards international levels. Since the world price increases of late 1973, direct subsidy payments to users of imported oil in the Atlantic Provinces, Quebec and part of Ontario have amounted to about \$4 billion.

There is widespread agreement that Canada must develop new sources of energy, which are likely to be costly. We must also reduce the growth in our use of energy. Energy is becoming scarcer and more expensive in the world. We cannot escape this hard fact. Higher prices are one of the most important means of increasing the supply of energy and reducing demand for it. The government is committed to a policy of moving energy prices in Canada at a measured pace toward world levels.

Higher energy prices in Canada do raise difficult problems of absorption and adjustment under current circumstances. The problem is how to move towards higher relative prices while avoiding severe disruption of the economy and an excessively abrupt burden of adjustment for those groups and regions which are most affected. For reasons already noted, many Canadians may well be faced with more belt-tightening this year and next than they have for some time. For them, the additional element of belt-tightening arising from higher prices for energy may be rather hard to accept. And yet an attempt to escape such a burden by demanding higher wages to compensate for the higher energy prices will simply shift the form and distribution of the burdens to others who are unable to protect themselves in the marketplace - the unorganized, the unemployed and those on fixed incomes.

If Canadians work together, however, the process of adjustment can be eased. Conservation of energy is a good example of the way in which responsibility can be shared. There are two areas where conservation can yield the greatest savings - use of automobiles and energy for space heating. Governments, through setting mileage standards and providing tax incentives and subsidies, can help - and have helped - in this area. But if all Canadians were to co-operate by voluntarily reducing their use of energy, often in ways which provide little discomfort and return substantial savings, then the amount of government intervention in this area and the cost of change would be much less.

Government as an Economic Sector

Governments are important participants in the economy quite apart from their role in setting economic and social policies. The public sector employs about one-third of Canada's non-agricultural work force. Governments provide goods and services accounting for about one-quarter of the gross national product and control, through government-owned enterprises, firms which account for another 10 per cent of gross national product. It is therefore incumbent on governments as important participants in the economy to manage their affairs well. There are many dimensions to

this. Three of them relate to the efficiency with which governments use the resources that they acquire, the pricing of services provided by governments, and the role of governments as employers.

The public sector must be managed tightly and in a way which encourages productivity growth. Efficiency in government is of prime concern because of the challenges we face. While the government is strongly committed to containing the growth in government expenditure, the problems faced by Canada over the last quarter of this century will exert tremendous pressure on governments to increase expenditure. By improving the productivity of the public sector, more can be done with the same resources. The government is committed to the firm control of its total expenditures and to scrupulous care in the management of its spending programs.

Governments provide a great variety of services to the public. The charges levied for these services do not always recover the full costs, with the result that taxpayers generally are subsidizing the users. Government pricing policies should encourage efficient use of resources, aid in our efforts to reduce the rate of inflation and ensure that excessive burdens do not fall on low-income groups. These goals are often in conflict and no simple approach will work in every instance. There have been cases in the past, however, where we relied too little on the market, and implicitly subsidized groups which need subsidies much less than others.

Governments have important responsibilities as employers. They must set wage policies in a manner that is fair both to their own employees and to all employees in the country. Governments should not be seen to be responsible for inflationary pressures yet they must be fair to their employees, and in particular to employees at the lower end of the income scale. Chapter 8 sets out the government's views on public sector compensation in more detail.

4 A New Forum for Consultation

Our existing governmental and institutional arrangements provide a number of channels for continuing consultation.

Parliament itself is the most important national forum for the interchange of views on issues and policies. The government presents proposals to a democratically elected and representative Parliament which examines, debates and modifies them, and ultimately decides whether it will authorize the government to implement them. Members of Parliament, who have a major responsibility to represent the views and concerns of their constituents, play a central role in this process, and there is no intention to diminish this role.

In addition, federal-provincial conferences, royal commissions or commissions of inquiry, advisory boards and committees, and regulatory hearings, offer opportunities for individuals and groups to influence policy development and affect program implementation. The Economic Council of Canada and some other bodies incorporate consultative machinery to broaden their analysis and to promote deeper mutual understanding of issues. Independent institutions study specific issues and report publicly on them. These vehicles of consultation are useful and will continue. However, they have typically focussed on specific issues arising at a particular time, and are often more a means of presenting views to the government than engaging in a meaningful dialogue.

The increasing interrelatedness of social and economic concerns is requiring a new approach to help Canadians work together in meeting the challenges that confront us. Many observers of the contemporary scene have commented on the accelerating rate of change, on increasing complexity in modern societies, and on the influence of powerful groups over the way in which the economy and society as a whole evolves. Recurring difficulties in dealing with economic problems such as inflation and unemployment are thought to be related to these trends.

Recognizing these developments, the government has been intensifying its consultations, not only with the provinces but also with representatives of business and labour. In recent months, there have been very useful meetings with business and labour together. The government believes that the time has now come to take a further step forward. The government thus proposes that discussions proceed as quickly as possible toward the establishment and operation of a new and broader consultative forum. To expedite these discussions, proposals are advanced in this paper with respect to the functions, form and operation of such a body.

It would be unrealistic to expect to institute a consultative process which could produce unanimous agreement on objectives and on specific actions. But it should be possible to provide a focus for broadly based public input to government thinking on major policy questions. It should also be possible to enhance the degree to which individual decisions, in both the private and public sectors, support the broader national purpose. This is especially important as we approach the end of mandatory controls.

The Nature of the Forum

Over the past few months, aspects of the possible role and nature of a consultative forum have been explored in a preliminary way with provincial governments, and with representatives of several major labour and business groups. A body consisting of more than 30 but less than 50 individuals has been suggested as appropriate to provide a reasonable balance, while permitting a useful exchange of views. The forum would be multipartite; participants would be chosen to reflect the views of business, labour, farmers, fishermen, consumers, professionals, co-operatives, and perhaps others. A substantial proportion of participants might be chosen on the basis of consultation with the major organizations representing labour, business, etc. The government might also invite others to participate, with due regard to the overall balance of the body, including its regional representation.

Federal government ministers would participate and the forum would be chaired by the federal government. Participation would be open to representatives of provincial governments, having regard to the desired limits on total size. However, provinces may wish to continue to place primary emphasis on the existing federal-provincial machinery for their consultations with the federal government, and may prefer to use their own mechanisms of consultations with the public, which can focus on issues of particular concern in their own parts of the country. Some provinces have already established such mechanisms. Provinces could, however, be invited to send observers to the national forum.

Discussions in the consultative forum could be expected to influence the decisions of the various participants. However, the forum itself would not have any decision-making powers with respect to government policies or programs. Any such powers would pose a challenge to the supremacy of Parliament and raise fundamental constitutional problems. Not being elected, the forum could not legitimately exercise any of the powers accorded to governments with the consent of the people. Nor would it be possible to extend ministerial accountability to cover any decision-making power of such a body.

Arrangements to involve the private sector in the management of specific programs would still be possible, however, if responsibility to Parliament through a single minister was preserved.

Although the forum would not have decision-making powers, it could influence policies and programs in both the public and private sectors if it exposed them to major points of view and promoted a better understanding of the issues involved.

Operation of the Forum

The forum would set its own agenda and priorities and decide the length and timing of its meetings. It should meet at least twice a year, and more frequently when required to discuss major issues. The forum would have to consider how best to inform the public of its proceedings.

The forum would concern itself with broad issues of economic problems and policies which in most cases would be national in scope. It would also be in a position to consider the range of structural questions which have been discussed earlier in this paper.

Clearly, the forum would require thorough analysis and background information for its consideration of these complex issues. It would appear desirable for this material to be provided by the participants rather than by a large staff, although the body would require a limited amount of secretarial and logistical support. The government would be prepared to submit papers, but other participants would also be expected to provide material. Other sources of expert advice might also be utilized to advantage. The Economic Council of Canada could be asked to play such a role. Work done by the several non-governmental economic research institutes operating in Canada would undoubtedly be useful. Material relevant to Canada published by such international organizations as the Organization for Economic Co-operation and Development would be available. The forum might look to institutions such as the Science Council and the Institute for Research on Public Policy as sources of discussion papers on a wider range of national concerns.

It would undoubtedly wish to consider the economic outlook over the short and medium term and exchange views on the likely course of output, employment and prices, and the implications for incomes and expenditures of the various sectors. There can be little doubt that the consultative forum would require a well-articulated set of economic projections if its discussions are to evolve from the level of broad generality to a focussed exchange of views on the issues of the day.

Such projections would be prepared within an integrated framework which would capture the interrelationships which pervade a modern economy. They would be based on assumptions regarding the international environment and other factors outside the control of any participants, on the policy setting of governments and on the behaviour

of the private sector groups in such areas as investment, wages and prices. These assumptions could of course be varied in ways which would reveal the consequences of alternative outside events, government policies and private behaviour patterns on the progress of the Canadian economy as a whole.

While there would be some advantage in having the analyses and projections prepared by an independent expert group, the government would be ready to take the lead and prepare them for consideration in the consultative forum. They would be consistent with the projections submitted at the beginning of each year to the federal-provincial meeting of Finance Ministers, and would thereby provide a valuable link between the work of the two bodies. The analyses and projections would be tabled in Parliament, if it is sitting, and made public at the time they would be submitted to the consultative forum.

Discussions in the consultative forum could be expected to lead to a better common understanding of the realities of the economic situation and of the limits within which the economy is evolving. Everyone around the table would gain a clearer perception of the interrelationships among their actions and of the implications for economic performance of alternative courses of economic policy and decisions throughout the private economy. This process would itself be of great value.

Participants will of course bring differing views to the discussions. It is not to be expected a consensus will necessarily emerge. This is true whether the focus of attention is the likely path of the economy if existing policies and practices remain in effect or whether the issue is the most desirable path of the economy which could be achieved by possible changes in the policies of government or the behaviour of the private sector. Indeed, to strive for a consensus would imply an effort to bind participants to particular courses of action. Because the attempt would be unlikely to succeed, it could well frustrate discussions, divert energies, and endanger the healthy evolution of the consultation

process as a whole. Thus no final conclusions or reports would be expected to emerge from the consultative forum, although individual members would be expected to communicate their own perceptions and insights to their respective colleagues.

However, the range of views about what is possible, and about what is desirable, could be expected to narrow as discussions proceed and each participant gains a better understanding of the views of others.

Within that framework, the government will continue to take responsibility for its own policies and to be accountable to Parliament and the electorate; it cannot bind itself in advance to adopt any consensus position which may emerge from the consultations. By the same token, business, labour and other private groups would be responsible for their own actions and accountable to their own constituents and to the public at large. Government decisions which are ultimately taken on matters discussed in the forum would be made public in the usual way, for example by policy statements, white papers, or simple announcements.

The views of the consultative body will of course be of great value to the monitoring agency which is discussed in the next chapter. As the range of opinion narrows on the possible and desirable course of the economy, the monitoring agency will have a firmer base for expressing views on the appropriateness of wage and price increases.

5 Monitoring Inflation After Controls

In addition to the consultative forum, an agency that would follow economic developments from the perspective of their potential implications for cost and price increases could make an important contribution to improved economic performance. Support for this view has been received in preliminary discussions with provincial governments and with some private sector groups.

In the broadest sense, the mandate of such an agency would be to see that governments, business and labour retain a lively sense of the harm that inflation can do and of the broader implications of individual policies or actions. The agency would draw attention to cost and price changes that are not justified by the economic circumstances. In doing so, it could make use of such general indicators of desirable economic performance as might emerge from the consultative process. In addition to following particular price or income developments with a view to influencing them, the agency would analyze the reasons for price and income changes. The analysis could lead to the investigation of the structure and operation of markets, and to recommendations as to possible structural improvements that would contribute to lower inflation and higher real incomes.

Without prejudging the important question of structure, these possibilities are developed here in terms of the role that might be played by a single agency. There will, of course, have to be full discussion of the advantages of different structures, with attention to the possible role of provincial or regional bodies within a co-ordinated national approach. Provincial government preferences will be of key importance.

The Nature of the Agency

What sort of agency should be established? Many people have spoken in general terms of the advantages of setting up some sort of post-control monitoring institution, but

there is a need to focus specifically on the nature of the job to be done and on the powers needed to carry it out.

The government believes that the essential job is to increase public understanding of the implications for the performance of the economy of developments affecting prices and incomes. The influence of the agency carrying out this role would depend on voluntary co-operation and the support of informed public opinion, rather than on legal authority to alter price or income decisions. The government does not believe it would be feasible or desirable to provide the agency with such authority, and this view appears to be widely shared.

The agency's legal powers would therefore be limited to obtaining information and publishing reports. Maximum use would be made of existing sources of statistical information in order to avoid unnecessary duplication of effort, although substantial improvement in this existing regular flow of information is likely to be required. At the same time the agency would have the authority to obtain relevant information directly in certain circumstances. It would use this power when particular price or income developments seemed to call for more detailed examination. While this power to obtain information might also be used to require companies and employers of certain types or in certain sectors to file regular statistical reports, substantial direct reporting on a regular basis is not likely to be required.

Methods of Operation

In its efforts to increase public understanding of price and income changes, and hence to influence them, the agency would deal with developments from the most general to the most particular.

(i) Analysis of general price and income developments

The agency would provide regular analytical reports on patterns of price and income developments in the economy. Although a vast

amount of detailed statistical information is published by various agencies and departments, there is a place for concise analytical reporting directed particularly toward the problem of inflation. The objective would be to analyze current and prospective price and income developments and to assess their implications for the overall performance of the economy. For instance, the reports would draw attention to the relationship between rates of cost and price increase and the economy's capacity to provide sustained growth in output and jobs, Canada's competitive position in world markets and the sharing of income.

(ii) Structural aspects of price and income developments

Prices and incomes do not all move together. A situation of stable average prices is one in which some prices are rising, some stay the same and some are falling. Changes in relative prices and incomes are an essential feature of a healthy economy. They are needed to attract resources into those parts of the economy where they can be used most productively. Without an awareness of this fundamental aspect of the operation of the price system, there is always a danger that relatively rapid increases in some prices or incomes - in circumstances that are fully justified - will trigger attempts to raise other prices or incomes where there is no comparable justification. The agency could play a useful role by analyzing developments from this perspective in order to help the public to understand and accept the need for changes in relative prices and incomes.

The agency, in pursuing its analysis of prices and costs, would draw attention to structural problems that prevent markets from working well. Imbalances or rigidities in markets can result from a variety of structural problems; they may arise, for example, from the structure of collective bargaining in

particular cases, from the characteristics of markets for particular goods and services, and from the legislative or regulatory framework within which the market operates. The agency, while recognizing that a broad range of interests and problems enters into overall economic policy setting and performance, would draw attention to such situations in order to promote actions by governments or by the private sector to improve the workings of markets. These improvements could make a significant contribution to alleviating inflationary tendencies in the longer run.

(iii) Particular price and income developments

An agency that did not have mandatory powers would not be expected to attempt regular intervention in particular price or income decisions with a view to changing them. Nonetheless, there would be ways in which it could bring a helpful influence to bear.

The obligation to explain and justify price increases, and the possibility of widespread public coverage of the agency's comment on price increases, would serve to remind companies of the need to avoid unreasonable increases. However, intervention of this kind would lose its influence if attempted too frequently. The agency would have to be careful not to dissipate its authority by a tendency to be meddlesome with its advice.

On the compensation side, this same discipline of explanation and public comment would also be at work. The parties to collective bargaining would be aware that their decisions could be exposed to judgment by the agency, and by the public at large. By the nature of the collective bargaining process, comment after a settlement would seldom lead to change in the agreement in question. However, it could influence the climate for other future negotiations. In some cases the agency would clearly draw attention to excesses, in the

hope of strengthening public opposition to more of the same. In other cases, the agency would be explaining the particular circumstances that might justify an apparently large increase. In this way the agency would help to ensure that large justified increases were not taken by the parties or by the public as a precedent for other cases where there was no such justification.

The agency could also influence important price and pay decisions by publishing reports before the event in order to set out the relevant circumstances in an objective manner for the use of the parties and for the information of the broader public.

Structure and Staffing

Over time, the monitoring agency would be able to bring a significant helpful influence to bear on price and income developments, provided always that its structure and the objectivity of its analyses give it the credibility essential to success.

Independence of the agency from government and from particular groups in the community would seem necessary, as the agency must be free to address comments and criticisms to all parties. The members of the governing board of the agency should be people of stature with a recognized experience in such areas as business, labour, and agriculture, but they would be expected to concern themselves with the broad objectives of the agency rather than with the interests of particular groups. Advisory committees, whose members would be more directly representative of interest groups, might also play a useful role. The agency's authority would depend crucially on the calibre of the members of its board and on the evidence that, as a group, they could bring an independent and expert judgment to bear on problems in either the public or the private sector.

Although neither governments nor groups in the private economy can be expected to welcome all of the agency's comments, it would need their support. It is hoped that

this support would be enhanced by the separate consultative process through which representatives of government, business, labour and others will work towards a better common understanding about the requirements of good economic performance. The agency, through its various activities and analyses, would contribute to and be guided by this consultative process.

The usefulness of any such agency rests not just on the stature of its board but also on the quality of its analytical work. It would need skilled analysts, knowledgeable about the problems of a wide range of industries and labour markets. These analysts should include people seconded from businesses and unions as well as from federal and provincial administrations.

A single national agency, if that were the structure that emerged from the forthcoming discussions, would have to remain in close touch with the problems of business and labour across the country. This suggests that it should have regional offices headed by regional members of the national board. Alternatively, provinces may wish to establish separate provincial or regional agencies. The choice between one or several boards, the basis of selection of members of a national board, and the extent to which a national board would monitor wages and prices and analyse structural issues falling directly under provincial governments, are all questions on which provincial participation in the final decisions will be required. In the event that a number of agencies are established, it would be important to ensure adequate co-ordination of the work of the various agencies.

The agency is envisaged as a new institution; the current Anti-Inflation Board would be disbanded. The expertise and knowledge accumulated by the AIB would, of course, be an important resource on which the new agency could be expected to draw. While the agency could make a continuing contribution to the better performance of the Canadian economy, there would be advantage in establishing it initially with a limited life, subject to renewal.

6 The Withdrawal of Controls

Controls over prices and incomes were introduced in order to bring down the rate of inflation without crippling output and employment. They were designed to have a rapid impact on inflationary expectations and to give us all time to make the changes in our economic system which would enable the mandatory system to be dismantled safely.

In deciding how to remove controls, it is most important to avoid any burst of price and wage increases that might be taken as a signal of a return to the status quo as it existed before controls. The achievements to which controls have contributed - a reduced rate of cost and price increases - must be maintained and further gains must be made. The decontrol process must develop in an orderly way.

There are other related objectives in planning decontrol. If the process is to be orderly, it must be accepted as being fair. There must be a proper balance between compensation and prices and profits. On the compensation side of the program, the individual being asked to comply must have reason for confidence that if he co-operates he will not suffer relative to others. Finally, all parties should know exactly how the decontrol process will affect them.

Three alternative methods of decontrol have been discussed.

Method 1: In the course of recent consultations, business and labour representatives have urged that controls should be ended quickly and have proposed that the government should simply announce that controls have ended.

Under this approach, the Board would presumably stop making compensation rulings and would ignore pending cases. Price and profit restraint would be lifted as of the last completed compliance period prior to the announcement.

This approach has the advantage of getting controls out of the way quickly. However, serious potential problems would have to be faced. To the extent that particular

wage and price pressures had built up during the period of controls, this approach could maximize the risk of a price and wage bulge. It could lead to a substantial outburst of wage demands, concentrated in a brief period. Severe industrial relations problems could result as workers all tried to catch up for perceived losses at the same time.

This approach also raises potential problems of fairness. Groups which had delayed bargaining or delayed submitting forms to the AIB past the announcement day would escape control, while those which had negotiated quickly and filed forms promptly would be subject to the maximum exposure to controls. Thus, groups having identical guideline years could be treated differently as a result of intentional or administrative delay.

Moreover, some current collective agreements contain, or are understood to be accompanied by, "AIB clauses". These provide for the elimination of rollbacks, for compensation increases of some other specified amount, or for contract re-openings, as soon as controls come off. In addition some contracts have not been amended to reflect A.I.B. decisions. To prevent serious unfairness and a bulge of costs, action would have to be taken to ensure that these clauses were not triggered and that no compensation higher than has been approved by the A.I.B. or the Administrator would be paid under a compensation plan on which there had been a ruling.

It should be noted that, on the prices and profits side, it would be necessary to retain controls over firms that had earned excess revenue until it had been eliminated.

Under this approach it would be impossible to announce the decontrol date in advance. To do so would set up immense pressure on the collective bargaining system; negotiations would grind to a halt. On the price and profit side, spreading non-compliance could soon create very serious inequities and disruption of normal business.

Those who have advocated this approach have undertaken to exercise restraint on a voluntary basis in order to avoid these difficulties. Arrangements would have to be made to scrutinize price increases and wage settlements to ensure that voluntary restraint was in fact being exercised,

and a representative monitoring agency, in which both business and labour might participate, is seen as a mechanism that might achieve this result. The questions which remain to be answered are what precisely would constitute voluntary restraint and how widespread is the commitment. The government would not be prepared to implement this method of decontrol without firm undertakings which would ensure continued progress in the struggle against inflation.

Method 2: A second approach to decontrol would be decontrol of different sectors or firms of different sizes on different dates. Unlike the first approach, this one has the advantage that it might serve to spread out any price and wage bubble. However, it has all the other drawbacks of the first approach. In addition, it is administratively difficult to handle, largely because of difficulties inherent in defining sectors, and would set up even greater uncertainties than the first method. Virtually no support for this approach has been expressed in the various preliminary discussions of decontrol in which the government has been engaging.

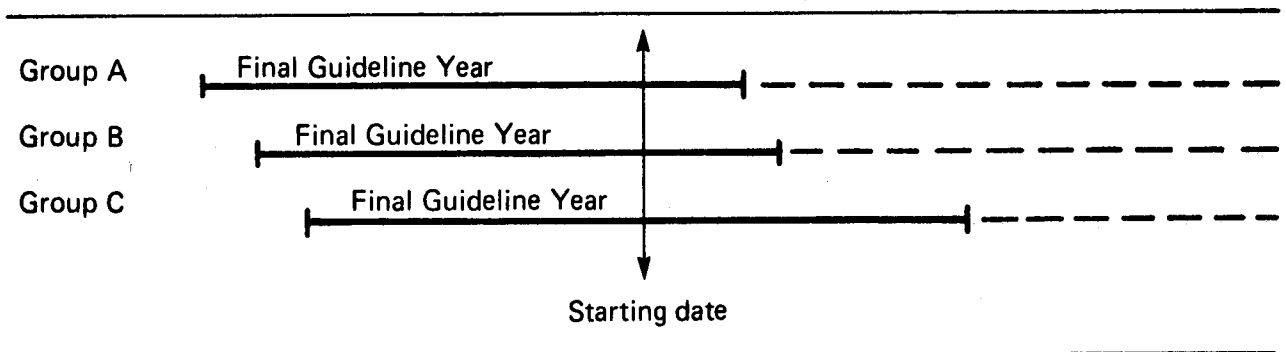
Method 3: Under the third approach, decontrol would begin on a specified day. The A.I.B. would not rule on compensation plans which commence after a certain date and - subject to qualifications indicated below - on prices and profits of firms for fiscal years that begin after that date. This approach as described in the budget best meets the criteria of minimization of any price and wage bubble, fairness, certainty, orderliness and ability to be announced in advance.

A date for the beginning of the process of decontrol - the "starting date" - would be set. No group would be subject to mandatory controls for guideline years beginning after that date. The last year during which a group would be under controls would be its guideline year in which the "starting date" falls. (The guideline year is fixed by the anti-inflation regulations for each group. It is the anniversary of the date on which the group's compensation first became subject to controls.)

Guideline years differ from group to group depending on the dating of their individual compensation plans. As a result, groups would emerge from mandatory controls at different times. The process by which groups of employees emerged from controls as their final mandatory guideline years terminated would be similar to that by which groups became subject to the guidelines after October 14, 1975. Some groups of employees of a firm could continue to be subject to the guidelines for several months after other groups in that firm had emerged from controls but, in general, those who first come out of controls would be those whose compensation was first subject to mandatory limitations.

The process is illustrated in this diagram.

DECONTROL OF COMPENSATION



In the diagram above, the solid lines represent the final guideline year under mandatory controls for each group. Each group's compensation beyond the end of that year would be determined by the normal processes, without the intervention of mandatory controls. Collective agreements covering more than one year would be subject to control until the end of the guideline year in which the decontrol starting date falls. Subsequent years of such agreements would be free of mandatory controls.

To ensure orderly decontrol and fairness to all groups of employees it is important that the method of decontrol apply equally to everyone. The proposed method meets this criterion. The intentional delaying of settlements or attempts to reopen contracts would not enable groups to gain an advantage over others by achieving pay increases in their final guideline year beyond those permitted by the guidelines. The beginning and the end of the final guideline year are fixed for each group by the regulations under the Anti-Inflation Act. That year would be subject to mandatory control, regardless of when the relevant compensation increases are settled. Thus there would be no incentive to delay negotiations until after the starting date, or even until after the group's final guideline year had ended. Nor would there be any advantage to be gained by signing agreements for less than one year, even if this were permitted by normal labour laws. Moreover, the compensation regulations establish that the guidelines apply to "compensation payable in or in respect of a guideline year," so that delays in implementing increases could not be used by some groups to gain an advantage over others. In addition, under this method of decontrol, A.I.B. clauses present no particular problems.

Collective agreements covering periods which are not multiples of one year present a technical problem in that the termination date of the agreement does not coincide with the end of the guideline year. Special provisions would be made to ensure that workers covered by such agreements would be treated equitably. Otherwise, the techniques used to calculate the guidelines and the rate of increase in the compensation of groups, which are set out in Part 4 of the Anti-Inflation Regulations, would remain essentially unchanged.

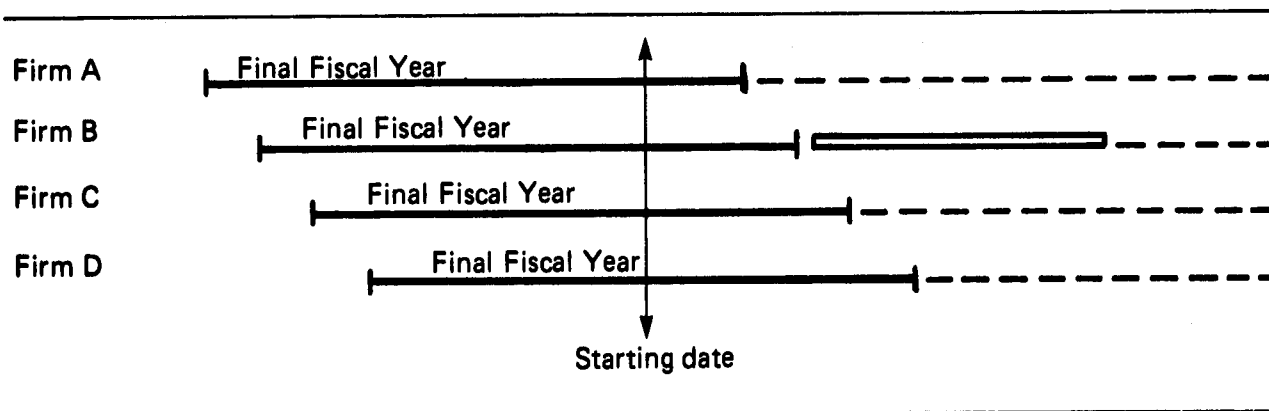
As discussed in detail in Chapter 8, it is envisaged that public sector compensation will not be subject to any special limitations under the rules governing decontrol. It is expected, however, that governments as employers will be following a general approach which ensures that compensation in the public sector does not get ahead of compensation in the rest of the economy.

The process of decontrol of prices and profits would begin on the same "starting date". Firms would be subject

to controls at least until the end of their fiscal year containing the starting date. This becomes their "final compliance year". Firms which are not in compliance with the program at the end of their "final compliance year" would be required to satisfy the AIB that they have disposed of excess revenue generated during that year.

This process is illustrated in the following diagram. In the diagram the solid lines represent the final fiscal year for which the firm is subject to mandatory controls. In this diagram it has been assumed that firm "B" has excess revenue at the end of the final compliance period, and remains under mandatory controls for the period indicated by two solid lines while disposing of excess revenue.

DECONTROL OF PRICES AND PROFITS



Two considerations might argue against simply ending price and profit restraint, supplier by supplier, as their fiscal year-ends are passed and necessary compliance plans are implemented.

First, employees still subject to mandatory restraint of their compensation are entitled to the assurance that prices will remain under comparable restraint. The employee's interest is not so much in seeing that his own employer is controlled as to his pricing as in seeing

that, in general, pricing behaviour remains under restraint. Depending on the starting date chosen, this element of equity between the two main sides of the program might not be assured by simply allowing all firms to exit at the end of the fiscal year in which the starting date falls. The relevance of this point would be greatly affected by the choice of a starting date.

There is a further consideration relating to equity among firms. All firms became subject to the price and profit rules on the same date - October 14, 1975. It might be seen as inequitable to disregard this fact in the design of the decontrol process.

In order to respond to these considerations it might be desirable to extend mandatory restraint past the fiscal year-ends of at least some of the companies whose fiscal years ended soon after the "starting date". Extension of enforceable price restraint past a firm's year-end could be provided by means of rules that restrain firms' price increases without relying on the annual profit margin test. This would require some technical amendment of the regulations, but no substantial new departures in the program.

The regime for professional firms is similar to the prices and profits program in that it is based on compliance by "firms" over a full fiscal year on a profit margin basis. The pattern of fiscal year-ends is not unlike that of suppliers in the prices and profits program and the considerations involved are essentially the same. However, the possibilities for a meaningful extension past fiscal year-ends are more limited.

The dividend restraint program will expire on October 13, 1977, unless amendments are made to Part 3 of the regulations. From a technical point of view this part of the program can be ended on any day that is appropriate in light of the main decision about the starting date.

The decision on the best date to begin this process of decontrol must of course take account of judgments about the overall economic situation and about the prospects for workable post-control arrangements. No final decision on the starting date has been taken pending further

consultations on post control arrangements. That decision must also take account of the effect that alternative starting dates would have on the pace of the decontrol process itself. This would be determined by the relationship between the starting date and the distribution of guideline year-ends for the 4,000,000 or so employees now subject to the mandatory controls. This distribution is illustrated in the following table.

Distribution of Ends of Guideline Years During the Third Program Year

	Oct. 14/77 to Dec. 31/77	Jan. 1/78 to March 31	Apr. 1 to June 30	July 1 to Oct. 13/78	TOTAL
Union	35%	20%	25%	20%	100%
Non-Union	60%	20%	15%	5%	100%
All Workers	50%	20%	20%	10%	100%

If the starting date were set at October 14, 1977 about one-half of employees would have emerged from controls by the end of this year, with the remainder emerging in proportions of 20 per cent, 20 per cent and 10 per cent respectively over the following three quarters. A shift of the starting date to the beginning of 1978 would mean that relatively few employees would emerge from mandatory controls during the early quarters of the process and one-half would be under controls until the fourth quarter of 1978.

Whatever starting date is chosen, it will be important to ensure that the process of removing mandatory restraint of compensation is well balanced by the process of lifting mandatory price restraint. The system of price restraint now in force is based on a profit test measured over each company's full fiscal year. The fiscal year-ends of companies under the program are distributed through the year as shown in the following table.

Distribution of Ends of Fiscal Years During the Third Program Year

	Oct. 14/77 to <u>Dec. 31/77</u>	Jan. 1/78 to <u>March 31</u>	April 1 to <u>June 30</u>	July 1 to <u>Oct. 13/78</u>
All Firms	70%	11%	9%	10%

If the starting date were to be October 14, 1977, almost 70 per cent of firms would have reached the end of their final compliance year by the end of 1977. As this is a somewhat greater percentage for firms than for employees, for the sake of fairness it would be necessary to enforce price restraint for at least larger firms for a further period of months. On the other hand, if a starting date at the beginning of 1978 were chosen, the final compliance year for 70 per cent of firms would end in late 1978 and no period of extended price restraint would be necessary.

7 Governments and Labour-Management Relations

One important area in which the public and private sectors share responsibility for economic performance is the field of labour-management relations. While government sets the legal and institutional framework within which labour and management function, it is the responsibility of the parties themselves to ensure that the system works.

However, over the past few years confidence in the labour relations system has been eroded. There has been growing public disapproval of the higher incidence of strikes and lockouts, and the public inconvenience and costs these entail. Even when agreements are reached without work stoppages, they often appear to ignore economic realities, to impose higher costs on the consumer and to result in loss of job opportunities and employment. Employees often see their work environment as overly authoritarian, too often unsafe and unhealthy, and neither sufficiently rewarding nor responsive. They frequently react to this with declining morale, absenteeism and high turnover rates. Employers, on many occasions, have perceived their labour force as being intractable and unconcerned with the productivity and viability of the enterprise, and have tended to view unions with growing mistrust.

Unusual pressures on unions and employers over the course of the 1970s have cast doubts on the collective bargaining process. Pressures have resulted from wider aspirations and increasingly optimistic expectations on the part of employees, shaped by a long and unbroken experience of peace and prosperity. Uncertainties have arisen out of a slowing in the pace of economic growth and rates of inflation unprecedented in the postwar years. And finally, pressures have been caused by the spread of collective bargaining into new sectors and by the need to adapt practices to new circumstances.

While our institutions and practices of industrial relations have stood up reasonably well under these strains, companies and unions have not been able to arrest the general erosion of confidence in their bilateral dealings. This has led to public dissatisfaction with the system of industrial relations, to increased reliance on third

party intervention, and to pressures on governments to intervene more strongly, even to institute some form of compulsory adjustment of labour-management differences.

As we move out of controls, confidence in the industrial relations system must be rebuilt. Responsibility can be exercised best when labour and management come together on relatively equal terms, when the legal framework ensures a reasonable balance of power between them. In certain instances the framework established by governments may not be conducive to such a balance and when this occurs it is the responsibility of governments to correct it. However, the federal government is but one of eleven governments sharing jurisdiction in this field and any general improvement requires the active and sensitive co-operation of all.

Governments cannot do the job alone. Because industrial relations are concerned with people and their problems - because they are in essence human relations - the strength and vitality of the system rests ultimately with employers, labour leaders and union membership. Governments can set the legal and institutional framework within which industrial relations are conducted. They can provide support services. They cannot, however, provide the goodwill and mutual trust which are essential if the problems faced by the parties are to be solved in the most timely and productive manner.

In addition to the provision of an appropriate legal framework for free collective bargaining, governments may enhance and strengthen the institutions of industrial relations. The complement of federal initiatives in industrial relations announced in the Speech from the Throne is specifically aimed at reinforcing collective bargaining, by strengthening it in three important dimensions:

1. Through measures to improve the work environment:

These initiatives are based on the premise that much of the tension evident in labour-management disputes arises not primarily out of differences over compensation but from less tangible, more human factors

such as job dissatisfaction, boredom, unresolved grievances, poor safety measures and resentment over the manner of supervision. If the work environment can be made more rewarding and less threatening to the individual, many of the points of abrasion between workers and employers which are now rendering collective bargaining difficult and time consuming, could be moved off the bargaining table.

These measures include:

- A National Occupational Safety and Health Centre, which would act as a multipartite institution. This would involve the co-operation of the federal and provincial governments, unions and management, and the scientific and professional community, to research and develop safety measures, test potentially dangerous materials and processes, and eventually to recommend national standards and codes of practice;
- A National Quality of Working Life Centre which, also on a multipartite basis, would encourage enquiry into means of bringing worker participation into decision-making and experimentation in the broad field of industrial democracy, and so help to promote and popularize methods of humanizing work and eventually giving workers some adequate say in how the work place is run;
- Expansion of the advisory services of Labour Canada on such matters as safety and the quality of working life, to supplement the activities of these two centres;
- A voluntary code of good industrial relations practices, to give employers and workers a manual of desirable standards by which to judge their own performance and to help standardize good labour relations policies across the country;

- Legislation to give workers who do not belong to unions the same standard of protection against unjust and arbitrary dismissal and certain other basic standards of employment as are now common for organized workers.

In addition, there will be active enquiries into the improvement of government policies on pension rights and benefits, and into the feasibility of implementing the International Labour Organization convention on paid educational leave. The convention envisages giving workers some of the same opportunity now enjoyed in the professions to regenerate themselves and prepare to move into new occupations and careers.

2. Through measures to improve collective bargaining:

The experience of work stoppages, delays in processing certification applications and delays in processing grievances suggest it is time to make improvements in the legal framework of collective bargaining and the support services available to it.

These measures include:

- The promotion of broader-based bargaining to reduce fragmentation and sequential work stoppages in bargaining;
- Amendments to Part V of the Canada Labour Code to appoint additional vice-chairmen of the Canada Labour Relations Board to help speed up the handling of cases; to provide for interim certifications and the imposition of first agreements by the Board, where necessary, and to broaden the Board's powers of enforcement in unfair practices and illegal strikes and lockouts; to enable unions to combine and regroup for the purpose of certification and to impose on them the duty to give fair representation to all their members; and to give the Minister of Labour wider powers to appoint arbitrators and set time limits in the filing of their awards;

- Improved conciliation, mediation, and arbitration services.

3. Through measures to improve the structure and operation of the overall labour relations system:

These initiatives are based on the belief that the government has an important obligation to foster a sense of common responsibility in collective bargaining across all jurisdictions. The problems of Canada's economic and social future cannot be met effectively without a much higher degree of mutual interchange of information, influence and involvement between business and labour and society as a whole.

These measures include:

- Greater educational facilities and opportunities to assist labour leaders and potential leaders to increase their skills and knowledge in all areas of labour relations;
- Legislated safety and health committees at the plant level to provide a forum in which workers and employers can share responsibility for a sound work environment;
- A Collective Bargaining Information Centre, which will operate under government-business-labour management to pull together timely and reliable information and make it available to the parties to collective bargaining.

Since their announcement, all of these initiatives have been the subject of an active and concerted process of consultation with provincial governments, business and organized labour. For those requiring funding, appropriations have been made. For those requiring legislation, legislation is being developed and will shortly be introduced in Parliament.

But further steps will have to be taken to regenerate a system of industrial relations which promotes the well-being of both the individual and the enterprise and thus

the well-being of society. The government will seek to promote, with the provinces and in co-operation with business and labour, a framework of employer-employee relations that promotes the dignity, health and safety of employees, that facilitates the resolution of labour-management differences and that enhances the productivity and international competitiveness of Canadian industry.

There will naturally be a divergence of views on the best means to achieve these objectives. Industrial relations can perhaps best evolve through a continuing, open dialogue among the parties concerned at the national and provincial levels, as well as at the level of the enterprise. This dialogue will need to be animated by a spirit which stems from a concern to foster a sense of national purpose and of individual worth in industrial relations, if it is to result in a climate of industrial relations in which all Canadians can bridge the divisiveness that has grown during the 1970s.

8 Public Sector Compensation

The public sector is substantial in size and diverse in character. It accounts for about one-third of Canada's non-agricultural work force and includes federal, provincial and municipal public services, federal and provincial Crown agencies, and bodies such as universities, school boards and hospitals. Compared to the private sector, a greater proportion of public employees are members of unions, including many professionals and administrators.

Many jobs in the public sector are comparable to jobs in the private sector, and most governments try to relate their compensation to that provided by competing employers for similar jobs. Other jobs are found mostly or exclusively within the public sector. Even where similar jobs exist in both sectors and a policy of comparability has been adopted, its achievement is rarely straight-forward or complete. In many instances, good comparisons with the private sector do not now exist. In other instances, comparisons that do exist are only partial and do not take adequate account of non-wage benefits associated with employment. In still other instances, no comparison with private sector jobs is possible. As a result, public sector compensation policies tend to be influenced by both comparability and other principles, including the maintenance of relativities within the public sector, ability to pay, and broad social policy objectives.

Actual compensation for most public servants is determined through collective bargaining. In some cases bargaining is between public sector unions and governments directly, in others between unions and government agencies such as Crown corporations or local school boards. Public sector unions bring to this process their own compensation objectives, priorities and notions of equity.

Public sector bargaining processes are unique in several ways. Government compensation is paid for by tax dollars, and all Canadians rightly expect to receive good value for their money. Canadians also expect, again quite rightly, that the essential services provided by governments with public funds will be maintained without interruption. This legitimate demand for continuity in the provision of public services, coupled with the absence of a "bottom line" or market test of appropriate compensation, often make it difficult for governments to resist settlements that might be unwarranted.

In 1973, the Chairman of the federal Public Service Staff Relations Board was asked "to examine the federal Public Service Staff Relations Act and its administration and to make recommendations, having regard to the experience gained since the coming into force of the Act... in order to meet adequately the needs of the employer...the employees... employee organizations...and to service the interest of the public...". The report contained 231 recommendations, none of which would drastically alter the fundamental principles on which the existing legislation is based. The Special Joint Committee on Employer-Employee Relations in the Public Service was established by Parliament to study these recommendations and to report its conclusions to Parliament. The committee's report was tabled on February 26, 1976 and dealt with such matters as the right to strike, designations, managerial and confidential exclusions and technological change.

Employer-Employee Relations

In The Way Ahead, the government stated that it "remains committed to the collective bargaining system as the fairest and most publicly acceptable method of determining wages and working conditions, in both the private and public sectors." At the same time, the government recognized that its primary responsibility was to ensure that the public interest was being served. In introducing changes to the legislation governing collective bargaining, the government will keep in mind the need to balance the interest of the public, effective management and the legitimate needs of the public servant.

By and large, the bold initiative of 1967 granting federal public servants the right to bargain collectively and to strike has proved successful. But like any new undertaking, the initial results are seldom entirely satisfactory and changes are usually necessary.

Proposed amendments to the Public Service Staff Relations Act will deal with the scope of bargaining, the grievance procedure, classification, and technological change. The government is also studying the recommendations of the Joint Committee dealing with unlawful activities and penalties with a view to amending the Public Service Staff Relations

Act to ensure that the public is adequately protected against the unlawful deprivation of services. As long as public servants enjoy the right to strike as one means of attaining their legitimate aspirations, this right must be used in a responsible manner. While action has been responsible for the most part since 1967, in some cases the public has been unlawfully deprived of essential services that it had every right to expect. The government believes that in future such cases must be dealt with more effectively.

By legislating the framework of collective bargaining, governments can influence the relationships between parties and thus, to an extent, protect the public interest. Ultimately, however, in the public as in the private sectors, it is the behaviour of the parties that will determine to what extent other steps need be taken by governments. The government hopes that the relationship between the parties to collective bargaining in the public service is sufficiently mature that further steps will not be required.

With a labour relations environment that encourages co-operation rather than antagonism, full and efficient service to the public is better assured. The government believes that this spirit of co-operation should be fostered. To this end it is proposing increased consultation on a broader range of subjects between government as employer and various public service unions.

Compensation

Compensation expenditures represent a substantial portion of the overall cost of government. The marked increase in these expenditures over the past several years has been the result of a number of factors. Public demand for new, improved or expanded government services often results in the need to increase the size of public services and the need to employ more highly qualified people. In recent years, inflationary pressures on wages have been an important factor in the compensation claims of public sector unions and the resulting settlements which they have negotiated. When services which are essential or perceived to be so, are withdrawn, governments experience pressures to agree to settlements which might otherwise be difficult to defend. Finally, in some instances binding arbitral awards have also

resulted in settlements, whose justification is not always apparent. Taken together, all of these factors, some within the reach of governments, others not, have acted to increase government compensation costs.

Concern has been expressed about the rate of growth, the level, and the fairness of public sector compensation. Some apparently generous contract settlements, occasionally preceded by prolonged interruption of essential services, have reinforced the impression that public sector compensation has been one of the main causes of higher inflation. However, in many instances, these rather large increases were both necessary and desirable to establish equitable levels of compensation.

The lack of comprehensive, comparable data makes it difficult to assess the validity of these concerns. It is known that the growth of average base-rate settlements, excluding the construction industry, for bargaining units of more than 500 employees was marginally greater in the public sector than in the private sector from 1968 to 1976. The table below shows the percentage increase for the public and private sectors over this period.

<u>Sector</u>	<u>Percentage Increase</u> (1968-1976)
All sectors	122.5
Private sector	120.2
Public sector	124.3
- municipal public services	132.4
- provincial public services	129.2
- Federal Public Service	112.9
All sectors less the Federal Public Service	125.3

Source: Labour Canada

An increase in public sector compensation of some four percentage points more than the private sector over a period of eight years is not in itself alarming. This is especially true when recognition is given not only to the percentage increases but also to the base from which they are calculated.

The government believes that in the future greater recognition should be given to the particular factors and circumstances surrounding individual settlements. This will minimize the inflationary risks associated with treating apparently generous settlements for one group as appropriate for others.

Decontrol

In other sections of this paper, alternative approaches to moving out of controls are discussed. There are no apparent merits in treating the public sector differently than other sectors. Indeed, considerations of equity demand that the public sector not be singled out for special treatment. The government therefore believes that the process and timing of the removal of controls should be the same for both the public and private sectors.

Post-Control Policies

The government believes that the approach to public sector compensation must be improved for the post-control period. It must:

- ensure that public sector compensation is fair, both to the employee and to the taxpayer;
- ensure that public sector compensation is related in a reasonable and acceptable way to the private sector, and,
- ensure that the rights of public employees to determine the particular conditions of their employment through responsible collective bargaining are protected.

Prior to the implementation of the controls program, most public and private employers did not explicitly treat compensation in a total sense. Wages tended to be negotiated without full regard for the total value and cost of the whole compensation package. One of the important benefits of the controls program is that employers and unions have begun to apply a concept of "total compensation" which recognizes the aggregate

monetary value or worth of wages and fringe benefits, having regard for regular hours of work. This experience has been helpful from the point of view of responsible compensation management. The government believes that this concept should be further developed and applied in the post-control period.

The approach that the government intends to pursue in compensating federal public servants is one of average comparability of total compensation with a representative sample of private sector employers. It will do so in a manner which ensures that federal public service compensation will continue to follow compensation in the private sector. This does not mean that the federal government is abrogating its responsibility to set an example in certain situations. In fact the government will continue to set the pace when social policy concerns indicate that it is appropriate. One can envisage a need for government leadership in areas such as working conditions, employer-employee relations, or non-wage benefits. It does mean, however, that compensation provisions resulting from initiatives in these areas will be explicitly recognized as part of the total compensation of federal public servants.

This policy will not alter the present basis for determining executive salaries in the federal government. These are established after outside expert advice is given, taking into account changes in compensation outside government, but recognizing that there is a limit as to the maximum that can be paid in the public service. This limit requires senior executive salaries to be less than what would be fully comparable to the private sector.

These principles of total compensation and comparability with the private sector represent an important new emphasis in public sector compensation. Their implementation, however, will require a period of adjustment and will create some problems, both real and perceived.

One problem is how total compensation and comparability are to be determined. Obviously, analytical methods must be devised which are objective and fair and perceived to be so by employees, their unions and employers. Factors include methods of job matching, relativities within and between similar groups, individual performance, special conditions

of work which may require premium pay, and the geographic aspect of labour markets. Both employer and employees will continue to need representative and timely compensation data from independent and objective sources such as the Pay Research Bureau. Regular consultations with the public sector unions will be required to determine the appropriate criteria to be used in seeking the relevant data. In addition, it must be recognized that many public sector jobs have no counterparts in the private sector. Pending the development of agreed methods of indirect comparison with jobs in the private sector, it would be appropriate to continue to base compensation on internal comparisons.

Another problem arises where compensation in the public sector is less than or greater than compensation in the private sector for comparable jobs. In such cases, the rate of increase in the public sector may have to exceed or lag that in the private sector until comparability is established. In such circumstances, adjustments could be misinterpreted unless every effort is made to ensure that the public is fully informed of the particular circumstances surrounding settlements. A post-controls monitoring agency, as described in this paper, could play a useful role in this regard.

There is also the problem of how the public sector should respond to private sector settlements which appear to be unjustified. The question arises as to how fast the public sector should follow. Here again, a post-controls monitoring agency could play a useful role.

One key concern likely to be raised is the degree to which collective bargaining remains meaningful in the context of a total compensation policy as described above. The government believes that this policy will not unduly restrict the rights that public employees now have to engage in responsible collective bargaining. Collective bargaining will continue to play a dominant and meaningful role in settling terms and conditions of employment, in establishing the appropriate mix of total compensation and in finding solutions to the problems raised above and others that may arise.

The government believes that its approach will ensure fair and responsible compensation in the public sector after controls are removed. Therefore, the government is seeking

the agreement of provincial governments to adopt a policy of bargaining based on the principles of total compensation and average comparability with the private sector.

In proposing this course of action it is recognized that there are important issues to be resolved. Some of these have been outlined above. In addition there will be the need to strike a balance with other competing considerations such as the ability of governments to pay. Finally, it should be recognized that under binding arbitration, public employers do not have the same opportunity to influence final settlements that they can have when other methods of settling disputes are used. In recognition of this situation the government is considering amending the Public Service Staff Relations Act to require arbitration tribunals to base their compensation awards on comparability with the private sector in a total compensation context. The government is also considering requiring arbitration tribunals to justify their awards in relation to these and other criteria provided for in the current legislation.

Until these proposals can be translated into improved practices, there will remain the need for continuing care in the establishment of compensation in the public service, especially in the decontrol period. Concern for inflationary trends and the fair treatment of employees and taxpayers alike are the dominant consideration in both the short and the longer run future.

9 The Next Steps

In publishing this paper the government hopes to stimulate public discussion on the questions it raises, and to have the benefit of a wide-ranging public debate. Mounting uncertainty about the timing of decontrol indicates clearly the need to reach an early decision. Consideration should therefore be given to the possibility of announcing a decision on decontrol timing by mid-summer. This decision would be influenced by the dialogue and responses generated by the paper. This will require early public discussion and comment on the issues involved.

Discussions will continue with business, labour and other groups. The government will also consult with the provinces concerning the need for a further federal-provincial ministerial conference in this period. The government will welcome the widest possible participation of Canadians in the discussion, and will seek out mechanisms to this end.

The government hopes to be able to hold a formative meeting of a multipartite forum, to continue in more specific terms a discussion of the nature of future consultative mechanisms, and to provide a final opportunity for discussion of decontrol and post-control matters before a decision on the timing of decontrol is taken.

Once the timing and method of decontrol are announced, work on post-control measures must continue in earnest. It is hoped that the discussions on consultative mechanisms will have advanced sufficiently at that time to permit them to play an important role in working toward decisions on the precise forms which institutions like the monitoring agency and the consultative forum will take, and on the way these institutions will function in the post-control period.